AARP STATEMENT FOR THE RECORD

SUBMITTED TO THE U.S. HOUSE COMMITTEE ON WAYS AND MEANS

ON

"IMPROVING RETIREMENT SECURITY FOR AMERICA'S WORKERS"

February 6, 2019

Washington, DC

For further information contact:
Michele Varnhagen
Financial Security & Consumer Affairs
Government Affairs
202-434-3829

AARP commends the U.S. House Committee on Ways and Means for convening a hearing on "Improving Retirement Security for America's Workers." AARP, with its nearly 38 million members in all 50 States, the District of Columbia, and the U.S. territories, is a nonpartisan, nonprofit, nationwide organization that helps empower people to choose how they live as they age, strengthens communities, and fights for the issues that matter most to families, such as health security and financial stability. AARP is committed to expanding retirement savings so that all Americans and their families have adequate income for retirement through Social Security and private savings, and we have worked throughout our history to develop and improve our retirement system. While we have many successes to be proud of, additional steps are needed to improve retirement income security for all Americans.

Background

Social Security is the bedrock of our retirement system and serves as the foundation of retirement income for most American families. Social Security provides earned retirement benefits to 42.5 million beneficiaries, with an average monthly benefit just over $1,400. These modest benefits, automatically adjusted for inflation, play an outsized role in retirement income. For most, Social Security is the largest source of income in retirement. In fact, Social Security is an especially vital source of reliable income for two groups with less access to income from pensions and other kinds of retirement savings–women and minorities. Among women 65 and over, just under 1 out of 2 (46 percent) live in families that receive at least half of their income from Social Security, and 1 out of 4 women 65 and over live in families that receive almost all of their income (at least 90%) from Social Security. Moreover, African American women tend to rely more heavily on Social Security because of their limited access to pensions, other forms of retirement savings and lower levels of asset income from stocks and bonds. Given Social Security's vital role–which will likely be more important in the future–it is critical that workers be able to count on receiving their earned benefits.

The private pension system provides a necessary complement to Social Security. Workers who are offered an employer-provided retirement plan at work (and who consistently work for employers who sponsor and cover them under retirement plans) can earn benefits that will significantly supplement their Social Security benefits. However, for the 55 million American workers who do not work for employers who either offer or cover them under a retirement plan, Social Security is likely to remain their primary source of retirement income.

The proportion of U.S. private sector workers with access to employer-sponsored payroll deduction retirement savings plans or pensions has remained stagnant for several decades. In 1987, about 51 percent of private sector workers ages 21 to 64 had access to a retirement savings or pension plan through their employers. The share of the workforce covered by plans rose slightly by 2000, but then fell gradually back to 51 percent as of 2013.[1] Workers without access to an employer plan could, in theory, contribute to an individual retirement account (IRA), but few actually do. For example, only about one worker in 20 with earnings of $30,000 to $50,000 a year and no access to a payroll deduction plan contributes to an IRA consistently.[2]

[1]Craig Copeland (2014), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC. https://www.ebri.org/pdf/briefspdf/EBRI_IB_405_Oct14.RetPart.pdf.

[2]Employee Benefit Research Institute (2006), Unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module.

About 55 million U.S. wage and salary workers between the ages of 18 and 64 lack access to an employer-related payroll deduction plan.[3] Access to a retirement plan varies by workers' demographic characteristics and firm size. Coverage rates as of 2014[4] were greater for higher-paid employees, with 23 percent coverage in the lowest quartile compared to 81 percent in the highest quartile. They are also higher for the better educated. Only 27 percent of workers with less than a high school degree are covered, compared to 69 percent of those with a bachelor's degree or more education. Interestingly, coverage is fairly constant with respect to age after workers reach age 25. Coverage rates vary from 54 to 64 percent for workers between the ages of 25 to 64.

As expected, coverage is higher for full-time than for part-time workers, and rises with firm size. Among firms with 50 or fewer workers, only 28 percent of workers have access to a retirement savings plan. Among firms with 1,000+ employees, 70 percent have access to a plan.

---

[3]David John and Gary Koenig (2014), "Workplace Retirement Plans Will Help Workers Build Economic Security," AARP Public Policy Institute, Fact Sheet 317, p. 2, Washington, DC. https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf.This number is based on data from the Current Population Survey. However, the survey was redesigned after 2013, and the accuracy of its later results has been questioned. For this reason, we do not include data after 2013.

[4]Participation and coverage information presented in this section is adapted from analysis of data from the Census Bureau's Survey of Income and Program Participation (SIPP) by the U.S. Government Accountability Office (2015b), "Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage (GAO 15-556)," Washington, DC. https://www.gao.gov/assets/680/672419.pdf. We define retirement plan coverage (synonymous with access) as being an employee age 18 or older who works for an employer that provides a retirement plan and is eligible for that plan. Since GAO does not report trends in coverage, we use data from Copeland (2014). This EBRI report presents Current Population Survey data on retirement plan participation and coverage over time for workers ages 21 to 64.

Members of minority groups are more likely to work for an employer without a pension or retirement savings plan[5]; 62 percent of Hispanics, 44 percent of African Americans, and 45 percent of Asian-Americans do not have access to an employer-sponsored retirement plan.[6]

Small-business employees are especially vulnerable. A U.S. Government Accountability Office (GAO) study found that only about 14 percent (1 in 7) of businesses with 100 or fewer employees offer their employees a retirement plan.[7] To a large extent, this is due to the perceived cost and complexity of retirement plan sponsorship and perceived lack of demand from employees.[8] A Pew Charitable Trusts survey of small- and medium-sized businesses without such a plan found that 71 percent felt the plans were too expensive to set up and 63 percent believed they lacked the resources to administer a retirement savings plan.[9] Retirement savings plans for small businesses, in fact, typically have higher fees per capita or per dollar invested than those available to larger businesses. A Brightscope/ICI report found that the median total annual cost for plans with under $1 million in assets is 148 basis points, compared with 57 basis points for plans with $100 million to $250 million in assets.[10] A

[5]Nari Rhee and Ilana Boivie, "The Continuing Retirement Savings Crisis." Available at SSRN: https://ssrn.com/abstract=2785723 or http://dx.doi.org/10.2139/ssrn.2785723. March 18, 2015.

[6]The Pew Charitable Trusts (2016), "Who's In, Who's Out: A look at access to employer-based retirement plans and participation in the states," p. 20, Washington, DC. http://www.pewtrusts.org/-/media/assets/2016/01/retirement_savings_report_jan16.pdf.

[7]Testimony of C. Jeszeck (2013), "Retirement Security: Challenges and Prospects for Employees of Small Businesses (GAO-13-748T)," p. 8, U.S. Government Accountability Office, Washington, DC. http://www.gao.gov/assets/660/655889.pdf.

[8]Retirement savings plans include employer-sponsored IRA plans, defined contribution (DC) plans and defined benefit (DB) plans. See GAO (2012), "Private Pensions: Better Agency Coordination Could Help Small Employers Address Challenges to Plan Sponsorship (GAO-12-326)," p. 4-5. https://www.gao.gov/assets/590/589055.pdf.

[9]The Pew Charitable Trusts (2017), "Small Business Views on Retirement Savings Plans," p. 2, Washington, DC. http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/01/small-business-views-on-retirement-savings-plans.

[10]BrightScope and ICI (2014), "The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans," p. 42, San Diego, CA: BrightScope and Washington, DC: Investment Company Institute. https://www.ici.org/pdf/ppr_14_dcplan_profile_401k.pdf.

low-cost retirement savings plan that is simple to administer would help address these concerns.

Congress has created many retirement plan options and a certain level of knowledge is required to select and establish a retirement plan. Under the primary federal law, the Employee Retirement Income Security Act (ERISA), employers are required to prudently select and monitor retirement plans. ERISA plans may be defined benefit, defined contribution, profit sharing, or employer stock ownership plans. Employers can more easily adopt lower contribution limit Individual Retirement Account (IRA) programs ($6,000 versus $19,000 for a 401(k) plan), but millions of largely small employers do not know about these plans. Individuals also can individually open up and contribute to IRAs, but most eligible individuals do not.

For decades, Congress has tried to make retirement saving easier. Congress has created many different types of simplified plans that employers may establish including IRAs, SIMPLEs, and Simplified Employee Pensions (SEPs). Congress has also permitted a number of automatic features – including automatic enrollment, automatic deferral amounts, automatic escalation, and automatic default investments – to help workers who do not make affirmative retirement decisions automatically earn benefits.

These changes have helped millions of workers -- but tens of millions of workers are still without coverage.

State Work and Save Programs

To address the access gap, AARP is focused on passing state level Work and Save programs, which are intended to provide access to payroll deduction retirement savings options for all workers. These programs operate like a 529 college savings plan for retirement. They are plug and play retirement programs run through public private partnerships. Notably, while the employer facilitates the payroll deduction, the retirement programs are not operated or overseen by employers. Employees can choose if they want to participate, how much they want to put away, and where they invest their money. Contributions are easy and automatic.

Eight states have passed some form of a Work and Save program–Oregon, California, Illinois, Maryland, Connecticut, New York, Vermont, and Massachusetts–with several more considering legislation this year. Oregon was the first state to have a program up and running. During the first year and a half of the program's rollout roughly $11 million has been saved for retirement, largely by people who have never saved for retirement before. Approximately 45 thousand workers are benefiting from this program and the average income of these savers is $29,000 per year. Illinois and California are in the process of implementing their rollouts currently; Maryland, Vermont and Connecticut are following suit next year.

Congressional Action Needed

Everyone should have access to an easy, automatic, and consistent way to save for retirement. Automatic payroll deduction has proven to be the most effective and successful method currently working across employers and industries, including for income and payroll taxes. Every employer maintains a payroll deduction system or contracts for one, and deducting retirement savings through the payroll mechanism is the most direct way to encourage individuals to save for retirement. AARP has long supported efforts to create a national Automatic IRA system. AARP also has supported Chairman Neal's legislation to permit automatic 401(k) type plans or permit employers to choose either a 401(k) or IRA program. Both proposals appropriately rely on payroll deduction to encourage greater retirement savings.

Access alone is not enough -- Congress also needs to encourage adequate savings levels. While defined benefit plans are generally designed to provide adequate retirement benefits to long service employees, defined contribution plans -- like 401(k) plans -- do not always lead to adequate retirement savings. The 2006 Pension Protection Act permitted employers to automatically enroll employees at a 3% contribution level, but this has proven too low. AARP supports increasing the level to 5%-6%, provided individuals always clearly have the ability to select a different level.

In addition, all tax-preferred retirement savings must be prudently invested, with reasonable fees and without conflicts of interest. While ERISA is clear that any person who exercises discretion over employee benefit plan assets must do so in a fiduciary capacity, some persons and firms continue to seek more lenient standards. AARP supported the strengthened fiduciary rule adopted by the Department of Labor, and we continue to advocate before the Securities and Exchange Commission to improve their rules for investors. We welcome and encourage Congressional efforts to hold hearings and ensure that financial service firms carry out their fiduciary duties to millions of retirement savers. These rules are especially important when workers terminate employment, and help protect workers from transferring their ERISA protected savings to less prudent individual retirement investments.

We also need to discourage pre-retirement cash-outs of retirement monies and instead encourage lifetime income streams, including periodic withdrawals and fixed lifetime annuities at retirement age. Too many workers take and spend their monies when they change jobs or experience financial emergencies. Most defined contribution plans do not offer adequate fixed annuity or periodic payment options. AARP looks forward to working with the Committee and other groups to encourage asset preservation and to improve distribution and spend-down options that meet workers' needs.

Towards that end, AARP has supported the Retirement Enhancement and Savings Act, sponsored in the last Congress by Reps. Kelly and Kind and Senators Hatch and Wyden. AARP also supports several other bills that build on ERISA's foundation and will help expand retirement access and adequacy, including Rep. Bonamici and Messer's and Senators' Warren and Daines' Retirement Savings Lost and Found Act. AARP is committed to continuing to work with members of Congress on additional proposals to expand coverage and benefits and simplify the system for employers and families. We are especially supportive of new initiatives to improve the Savers Tax Credit, expand retirement coverage to part-time workers and independent contractors, and improve protections for spouses and beneficiaries.

AARP has also been strongly supportive of efforts to educate and better inform workers about their retirement savings plans. ERISA and the tax code require many disclosures to workers about the actions they need to take and the benefits they are earning. Some industry associations have been lobbying Congress to permit automatic electronic disclosure to workers and their spouses and family members who may not have access to computers. Employers already may automatically provide electronic disclosures to workers who typically work with computers. AARP strongly opposes the elimination of paper mailings of important information unless participants affirmatively elect electronic communications. AARP is happy to work with Congress to determine how we can make benefit communications shorter, simpler, clearer and timelier. Every employer is free to ask participants if they want electronic information. But, we remained concerned about where information will be sent, how financial documents can be read on cell phones, how long and who would retain documents, cyber security protections, beneficiary access, and crediting of savings to worker accounts. AARP is happy to discuss these issues, but urges Congress to retain hard-won consumer's rights to written documents that they will need not only for current action, but which may be important to ensure benefit accuracy for fifty or more years.

Finally, AARP urges the Committee to finish its work as soon as possible to find a fair solution for the millions of workers and retirees counting on multiemployer pensions for their retirement security. While most of these plans are well funded, there are at least 100 plans that do not have enough contributing employers to pay out full earned retiree pensions. Many retirees have already experienced benefit reductions, and over one million retirees and their families are at risk of losing substantial needed retirement income. AARP supports Chairman Neal's Rehabilitation for Multiemployer Pensions Act and Rep. Kaptur's Keep Our Pension Promises Act, which would provide loans or transfer some unfunded liabilities to the PBGC, while a comprehensive legislative solution is worked out.

In closing, AARP congratulates the Chairman and the Committee for the high priority you have afforded to improving the public and private retirement systems that are essential components of retirement adequacy for all Americans and their families.